

S.E.C. RULE 15c2-12
ANNUAL REPORT
FISCAL YEAR ENDED JUNE 30, 2006

The State Water Resources Control Board (the "Board"), acting by and through the State Treasurer's Office of the State of California, hereby provides its annual financial information for the fiscal year ended June 30, 2006 in connection with the following:

Bond Issue

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2002	8/1/02	8/1/02

The base CUSIP number for the bond listed above is 13033W - _ _ _.

Note: The base CUSIP number provided is for the convenience of Bondholders. The State Treasurer's Office is not responsible for the accuracy or completeness of such numbers.

Other Matters

This annual report is provided solely for purposes of the Continuing Disclosure Agreement. The filing of this report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the State Water Resources Control Board or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the fiscal year to which this report relates (other than as referred to in this report), or that no other information exists which may have a bearing on the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds. The information contained in this report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness.

Dated: February 14, 2007

State of California

Original signed by Lai Louie
Deputy State Treasurer
For State Treasurer, Bill Lockyer

STATEMENT OF
ANNUAL FINANCIAL INFORMATION
AND OPERATING DATA
with respect to the
CLEAN WATER STATE REVOLVING FUND
of the
STATE WATER RESOURCES CONTROL BOARD

Introduction

This Statement of Annual Financial Information and Operating Data dated January 30, 2007 (the "Statement") of the State Water Resources Control Board of the State of California (the "Board") is prepared and submitted in accordance with the requirements of the Board's Continuing Disclosure Agreement dated as of August 1, 2002 (the "Continuing Disclosure Agreement") with respect to the \$300,000,000 California Infrastructure and Economic Development Bank Clean Water State Revolving Fund Revenue Bonds, Series 2002 (the "Series 2002 Bonds"). Set forth below is certain financial information and operating data relating to the Board's Clean Water Program for the Fiscal Year ended June 30, 2006, and certain other information relating to the Series 2002 Bonds as provided in the Continuing Disclosure Agreement.

This Statement is of limited scope; it contains only an update of certain financial information and operating data described below. The information set forth herein does not contain all material information concerning the Series 2002 Bonds or the Board necessary to make an informed investment decision. This Statement does not constitute an offer to sell or the solicitation of an offer to buy the Series 2002 Bonds. This Statement is submitted pursuant to the Continuing Disclosure Agreement. The purpose of the Board's undertaking is to comply with the requirements of Rule 15c2-12 promulgated by the U.S. Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 (17 CFR Part 240, 240.15c2-12) (as amended, the "Rule") and not to create new contractual or other rights for the trustee or the underwriters of the Series 2002 Bonds, any registered owner or beneficial owner of Series 2002 Bonds, any municipal securities broker or dealer, any potential purchaser of Series 2002 Bonds, the SEC or any other person.

Series 2002 Cash Flow Schedule

The following cash flow schedule sets forth on an annual basis the Pledged Revenues and the Debt Service on the Series 2002 Bonds as of June 30, 2006, which reflects the prepayment in full of four Series 2002 Pledged Project Obligations. Prepayments received with respect to the Series 2002 Pledged Project Obligations in Fiscal Year 2006 were deposited in the Debt Service Account and used to pay debt service for the Series 2002 Bonds. The last column shows the debt service coverage for each year, which is the Pledged Revenues divided by the Debt Service on the Series 2002 Bonds for such year. The amounts provided in the cash flow schedule are based upon various assumptions concerning the timely repayment of Series 2002 Pledged Project Obligations in accordance with scheduled repayment amounts and without any further prepayments of such amounts and other assumptions. In addition, the cash flow schedules assume that there is no substitution, addition or release of Series 2002 Pledged Project Obligations as permitted under the Indenture. Any such release of Series 2002 Pledged Project Obligations could result in a reduction in the debt service coverage described below.

CASH FLOW SCHEDULE as of June 30, 2006

Year Ending October 1	Scheduled Loan Repayments from Pledged Project Obligations ⁽¹⁾	Series 2002 A Debt Service			Debt Service Coverage ⁽²⁾
		Principal	Interest	Total	
2006	\$ 82,358,100	\$ 22,850,000	\$10,957,104	\$ 33,807,104	2.44
2007	76,519,342	23,585,000	10,221,604	33,806,604	2.26
2008	72,855,003	22,930,000	9,323,554	32,253,554	2.26
2009	72,369,161	23,655,000	8,602,654	32,257,654	2.24
2010	71,891,962	24,390,000	7,604,229	31,994,229	2.25
2011	69,139,854	24,285,000	6,528,629	30,813,629	2.24
2012	64,184,121	22,895,000	5,357,779	28,252,779	2.27
2013	55,371,666	19,940,000	4,280,629	24,220,629	2.29
2014	48,742,014	17,900,000	3,483,029	21,383,029	2.28
2015	44,998,888	17,130,000	2,649,529	19,779,529	2.28
2016	37,998,888	14,980,000	1,803,485	16,783,485	2.26
2017	28,948,061	11,850,000	1,060,085	12,910,085	2.24
2018	24,914,746	10,000,000	470,630	10,470,630	2.38
Total	<u>\$750,291,807</u>	<u>\$256,390,000</u>	<u>\$72,342,938</u>	<u>\$328,732,938</u>	

⁽¹⁾ Scheduled loan repayments occur throughout the year and are adjusted to include the 10-day grace period permitted by the Board.

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Series 2002 Pledged Project Obligations

The following table lists the Series 2002 Pledged Project Obligations, their respective loan balances and the percent of the Total Pledged Projected Obligations represented by such loan balances as of June 30, 2006. Four of the Series 2002 Pledged Project Obligations have been prepaid in full. Prepayments received with respect to the Series 2002 Pledged Project Obligations in Fiscal Year 2006 were deposited in the Debt Service Account and used to pay debt service for the Series 2002 Bonds.

SERIES 2002 PLEDGED PROJECT OBLIGATIONS as of June 30, 2006

<u>Borrower</u>	<u>Number of Loans</u>	<u>Loan Balance as of June 30, 2006</u>	<u>Percent of Total Pledged Project Obligations</u>
Alameda, City of	3	\$ 3,943,814.95	0.63%
Banning, City of	1	3,739,946.81	0.60
Benicia, City of	1	15,750,263.37	2.51
Blythe, City of	1	3,829,944.40	0.61
California State Coastal Conservancy	1	2,325,918.52	0.37
Chico, City of	1	27,982,100.62	4.46
Corona, City of	1	16,193,884.40	2.58
Delta Diablo Sanitation District	1	2,144,412.99	0.34
East Bay Municipal Utility District	8	51,030,710.72	8.13
El Toro Water District	1	6,115,083.00	0.97
Elsinore Valley Municipal Water District	4	3,532,533.46	0.56
Fresno Metro. Flood Control District	1	7,858,598.41	1.25
Goleta Water District	1	5,233,277.79	0.83
Hidden Valley Lake Community Service District	1	5,864,642.40	0.93
Irvine Ranch Water District	1	2,383,289.27	0.38
La Canada Flintridge, City of	1	5,128,725.27	0.82
Lake County Sanitation District	1	5,261,491.94	0.84
Livermore, City of	1	5,941,486.67	.95
Los Angeles County Sanitation District	4	37,927,317.92	6.05
Metropolitan Water District of Southern California	1	15,878,504.49	2.53
Monterey Regional Water Pollution Control Authority	2	7,824,640.55	1.25
Moulton Niguel Water District	2	8,992,633.05	1.43
North of the River Sanitary District No.1	1	9,729,456.67	1.55
Oakland, City of	1	2,103,067.30	0.34
Oceanside, City of	1	5,701,446.08	0.91
Ojai Valley Sanitary District	1	13,277,357.94	2.12
Padre Dam Municipal Water District	1	6,475,205.13	1.03
Panoche Water District	1	2,776,921.80	0.44
Patterson, City of	1	3,070,696.17	0.49
Richmond, City of	1	2,868,429.43	0.46
Rubidoux Community Services District	1	2,355,867.53	0.38

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SERIES 2002 PLEDGED PROJECT OBLIGATIONS
as of June 30, 2006
(continued)

<u>Borrower</u>	<u>Number of Loans</u>	<u>Loan Balance as of June 30, 2006</u>	<u>Percent of Total Pledged Project Obligations</u>
Sacramento, City of	3	\$ 35,625,441.07	5.68%
San Bernardino, City of ⁽¹⁾	2	19,523,975.87	3.11
San Eljio Joint Powers Authority	1	10,334,428.72	1.65
San Francisco, City and County of	14	118,868,783.01	18.95
San Luis Obispo, City of	3	13,043,654.71	2.08
Santa Ana Watershed Project Authority ⁽¹⁾	7	26,634,541.40	4.25
Santa Cruz, City of	1	36,721,230.12	5.85
Santa Monica, City of	1	3,753,897.72	0.60
Santa Rosa, City of	2	29,034,582.53	4.63
South San Francisco, City of	1	4,200,536.39	0.67
Ukiah, City of	1	3,633,810.32	0.58
Union Sanitary District	1	13,937,116.95	2.22
Victor Valley Wastewater Reclamation Authority	1	3,077,316.65	0.49
Wasco, City of	2	3,825,326.83	0.61
Western Riverside County Regional Wastewater Authority	4	7,750,575.18	1.24
Westlands Water District	<u>2</u>	<u>4,095,285.24</u>	<u>0.65</u>
TOTAL	<u>94</u>	<u>\$627,302,171.76</u>	<u>100.00%</u>

Source: State Water Resources Control Board of the State of California.

⁽¹⁾ The Santa Ana Watershed Project Authority served as the Borrower in nine of the Project Obligations originally pledged as security for the Series 2002 Bonds. In 2004, two of the nine Project Obligations were assumed by the City of San Bernardino. All nine Project Obligations remain Series 2002 Pledged Project Obligations.

The following table lists the four Series 2002 Pledged Project Obligations that were prepaid in full as of June 30, 2006. Prepayments received with respect to the Series 2002 Pledged Project Obligations in Fiscal Year 2006 were deposited in the Debt Service Account and used to pay debt service for the Series 2002 Bonds. The total repayment amount represents principal and interest.

**FULLY PREPAID SERIES 2002 PLEDGED
PROJECT OBLIGATIONS**
as of June 30, 2006

<u>Borrower</u>	<u>Number of Loans</u>	<u>Repayment Amount</u>
Los Angeles County Sanitation District	2	\$11,951,192.89
The Nature Conservancy	2	\$ 6,666,891.38

SERIES 2002 PLEDGED PROJECT OBLIGATIONS
as of June 30, 2006
(continued)

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Significant Borrower Annual Financial Information

The following financial information was provided by the City and County of San Francisco with respect to its Clean Water Program and, except for the information under the caption "Conversion to Cash" and the footnotes, is derived from published financial statements for each of the years indicated. The information under the caption "Conversion to Cash" has been prepared by the City and County of San Francisco to assist the reader in assessing its ability to pay the debt service on its SRF Loans and the Revenue Bonds of the Clean Water Enterprise.

Summary of Selected Financial Data City and County of San Francisco Clean Water Enterprise (000's)

<u>Fiscal Year</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
OPERATING & INVESTMENT REVENUES				
Sewer Service Charges	\$130,013	\$133,160	\$144,348	\$159,281
Other Revenue	4,732	4,646	4,540	5,422
Investing Activities ⁽¹⁾	2,499	363	2,837	5,024
Total	\$137,244	\$138,169	\$151,725	\$169,727
OPERATING & MAINTENANCE EXPENSES				
Salaries & Fringe Benefits	\$ 37,480	\$ 37,221	\$ 37,782	\$ 44,798
Contractual Services	5,432	5,802	6,227	7,962
Materials & Supplies	7,288	7,142	8,283	8,565
Depreciation & Amortization	38,369	38,094	37,800	37,228
General & Administrative	11,974	20,294	22,249	13,725
Services of Other PUC or City Departments	20,656	20,572	23,234	24,105
Other	7,978	791	3,715	4,571
Total	\$129,177	\$129,916	\$139,290	\$140,954
OPERATING & INVESTMENT INCOME	\$ 8,067	\$ 8,253	\$ 12,435	\$ 28,773
CONVERSION TO CASH⁽²⁾				
÷ Operating & Investment Income	\$ 8,067	\$ 8,253	\$ 12,435	\$ 28,773
+ Depreciation & Non-Cash Expenses	38,977	38,304	37,802	36,429
+ Changes in Working Capital	98	4,538	3,192	(4,288)
+ Other Funds Available for Debt Service ⁽³⁾	28,593	20,793	16,323	25,999
SRF Loan Payments	\$ 20,132	\$ 20,132	\$ 19,608	\$ 20,134
Revenue Bond Debt Service⁽⁴⁾	\$ 35,084	\$ 18,506	\$ 17,742	\$ 17,219

⁽¹⁾ Includes cash receipts on invested unrestricted funds.

⁽²⁾ The San Francisco Clean Water Enterprise Indenture defines "Net Revenues" on a cash basis rather than on a GAAP basis. The conversion to cash outlined above takes Operating & Investing Income and adjusts for non-cash expenses (including Depreciation and Non-Cash Expenses and Changes in Working Capital).

⁽³⁾ As per the San Francisco Clean Water Enterprise Indenture, in addition to current year cash flow, the coverage calculation permits the inclusion of funds not budgeted to be spent in the next 12 months and legally available to pay debt service (namely, other Funds Available). Source: Controller of the City and County of San Francisco financial accounting system (FAMIS).

⁽⁴⁾ Excludes \$30.475 million in debt service set asides used towards refunding bonds in Fiscal Year 2003.

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Significant Borrower Audited Financial Statements

Audited financial statements for the San Francisco Clean Water Program for the Fiscal Years ending June 30, 2006 and 2005 may be found at the San Francisco Public Utilities Commission website at: <http://sfwater.org>. No information other than the financial statements for the San Francisco Clean Water Program is incorporated by reference herein.

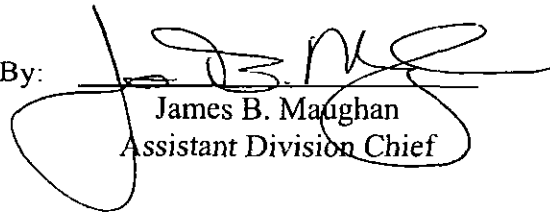
Conclusion

This Statement has been executed and delivered on behalf of the Board pursuant to the Continuing Disclosure Agreement.

Dated: January 30, 2007

STATE WATER RESOURCES CONTROL BOARD

By:

A handwritten signature in black ink, appearing to read 'J. B. Maughan', is written over a horizontal line. Below the line, the name and title are printed.

James B. Maughan
Assistant Division Chief

**CALIFORNIA STATE WATER RESOURCES
CONTROL BOARD WATER POLLUTION
CONTROL REVOLVING FUND
Sacramento, California**

**FINANCIAL STATEMENTS and REPORTS REQUIRED
BY THE SINGLE AUDIT ACT AMENDMENTS OF 1996**

June 30, 2006 and 2005

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Independent Auditor's Report

California State Water Resources Control Board
Water Pollution Control Revolving Fund
Sacramento, California

We have audited the accompanying basic financial statements of California State Water Resources Control Board, Water Pollution Control Revolving Fund as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of California State Water Resources Control Board, Water Pollution Control Revolving Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 - Definition of Reporting Entity, the basic financial statements of the California State Water Resources Control Board, Water Pollution Control Revolving Fund are intended to present the financial position, changes in financial position and cash flows of only that portion of the financial reporting entity of the California State Water Resources Control Board that is attributable to the transactions of the California State Water Resources Control Board, Water Pollution Control Revolving Fund. They do not purport to, and do not present fairly, the financial position of the California State Water Resources Control Board or the State of California as of June 30, 2006 and 2005, and the changes in their financial position and their cash flows, where applicable, for the years then ended, in conformity with the accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California State Water Resources Control Board, Water Pollution Control Revolving Fund as of June 30, 2006 and 2005, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 on our consideration of California State Water Resources Control Board, Water Pollution Control Revolving Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages III through IX is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the California State Water Resources Control Board, Water Pollution Control Revolving Fund's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Henderson LLP

Greenwood Village, Colorado
September 8, 2006

**California State Water Resources Control Board
Water Pollution Control Revolving Fund
State Revolving Fund Program**

Management's Discussion & Analysis

The following Management's Discussion and Analysis is a required supplement to the California State Water Resources Control Board's (Board), Water Pollution Control Revolving Fund (State Revolving Fund program) (SRF) financial statements. It describes and analyzes the financial position of the SRF providing an overview of the SRF's activities for the years ended June 30, 2006 and 2005. We encourage readers to consider the information presented here in conjunction with information that is in the financial statements and notes, which follow this section.

Financial Highlights

- In 2006, net assets increased by \$101 million to a total of \$2.3 billion as compared to an increase of \$114 million in 2005.
- Total capital contributions were \$56.9 million as compared to \$73.2 million in 2005. The decrease of \$16.3 million is due to decreased utilization of U.S. Environmental Protection Agency (EPA) capitalization grants. The \$73.2 million in 2005 was an increase of \$25 million when compared to 2004. This increase was primarily due to increased utilization of U.S. Environmental Protection Agency (EPA) capitalization grants.
- Restricted portion of net assets decreased by \$79 million in 2006 to \$667 million as compared to a decrease of \$40 million in 2005. This was due to decreases in notes receivable for loans pledged to the Series 2002 Revenue Bonds as a result of repayments received during 2005 and 2006, and the related debt service payments made on the Series 2002 Revenue bonds.
- As a result of the disbursement of the unspent revenue bond proceeds, there is a decrease in restricted cash and cash equivalents of \$21 million for 2006 as compared to a decrease of \$31 million in 2005 for the same purpose.
- Notes receivable decreased by \$12 million to \$2.12 billion in 2006 as compared to an increase of \$99 million in 2005. Notes receivable increases when loan funds are disbursed and decreases when loan principal payments are received. The decrease in 2006 is the result of smaller distributions of the remaining EPA grant funds and revenue bond proceeds when compared to 2005.

Using this Annual Financial Report

The financial statements included in this annual financial report are those of the SRF. As discussed in Note 1, Definition of Reporting Entity, the basic financial statements of the SRF are intended to present the financial position, changes in financial position and cash flows of only that portion of the financial reporting entity of the Board that is attributable to the transactions of the SRF. They do not purport to present the financial position of the California State Water Resources Control Board or the State of California as of June 30, 2006 and 2005 and the change in their financial positions and their cash flows for the years then ended.

Overview of Financial Statements

This discussion and analysis is an introduction to the SRF financial statements and accompanying notes to financial statements. This report also contains required supplementary information and other supplementary information.

The financial statements of the SRF are presented as a special purpose government engaged only in business type activities - providing loans to other governmental entities. The statements provide both short-term and long-term information about the SRF's financial position, which assists the reader in assessing the SRF's economic condition at the end of the fiscal year. These statements are prepared using the accrual basis of accounting. The financial statements include the following three statements:

- The *Statements of Net Assets* present information on all of the SRF's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets are expected to serve as a useful indicator of whether the financial position of the SRF is improving or deteriorating.
- The *Statements of Revenues, Expenses, and Changes in Net Assets* present information which reflects how the SRF's net assets changed during the past year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.
- The *Statements of Cash Flows* report the SRF's cash flows from operating activities, non-capital financing activities, and investing activities.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes can be found immediately following the financial statements.

Net Assets

The SRF's net assets increased by \$101 million or 4.6 %, to \$2.29 billion at June 30, 2006, as compared to an increase of \$114 million or 5.5% the previous year indicating a continued strong financial position.

The current portion of the SRF's liabilities was \$27.6 million in 2006 and \$27.4 million in 2005. Current liabilities primarily reflect continuing principal payments for the Series 2002 Revenue Bonds. Noncurrent liabilities reflect decreases of \$24.2 million in 2006 and \$23.6 million in 2005, which corresponds to those same bond principal payments.

A segment of the SRF's net assets are subject to external restriction on how they may be used. The amounts of net assets that are restricted have decreased in 2006 by \$79 million to \$667 million or 10.6%, as compared to a decrease in 2005 of \$40 million to \$746 million or 5.1%.

Of the total restricted net assets, \$627 million in 2006 and \$690 million in 2005 represent the balance of outstanding loans that were pledged as security to Series 2002 Revenue Bonds debt service. The principal and interest received during the fiscal year from these loans is used to make the semi-annual debt service payments on the revenue bonds. The restricted portion of net assets will continue to decline as the pledged loans are repaid, and the corresponding debt service payments are made on the Series 2002 Revenue Bonds. In 2006, the SRF received a total of \$82.2 million (\$62.7 of principal and \$19.5 million of interest) on these loans; the debt service payment was \$33.5 million (\$11.3 million of interest and \$22.2 million of principal). In 2005, the SRF received a total of \$84.8 million (\$63 million of principal and \$21.8 million of interest); the debt service payment was \$33.4 million (\$12 million of interest and \$21.4 million of principal).

The remaining \$40 million of restricted net assets in 2006 and \$56.5 million in 2005 represent pledged loan repayments, which are restricted for future debt service payments. Any excess of principal and interest received over the required debt service will be released from restriction as debt service payments are issued.

Table 1

Net Assets

(in thousands)

		June 30,	
	2006	2005	2004
ASSETS			
Cash and cash equivalents	\$ 404,883	\$ 318,323	\$ 329,962
Loans receivable	2,120,398	2,132,450	2,033,109
All other assets	37,652	34,946	31,897
Total assets	2,562,933	2,485,719	2,394,968
LIABILITIES			
Current liabilities	27,573	27,413	26,792
Noncurrent liabilities	240,551	264,752	288,384
Total liabilities	268,124	292,165	315,176
NET ASSETS			
Restricted			
Debt service	39,978	56,475	33,518
Security for revenue bonds	627,303	690,022	752,717
Subtotal restricted assets	667,281	746,497	786,235
Unrestricted	1,627,528	1,447,057	1,293,557
Total net assets	\$ 2,294,809	\$ 2,193,554	\$ 2,079,792

Changes in Net Assets

Program revenue was \$50.4 million, which is an increase of \$2.5 million or 5.2% in 2006, of which \$18.7 million was restricted for debt service. In 2005, program revenue was \$47.9 million, an increase of \$1.1 million or 2.3%, of which \$20.4 million was restricted for debt service. The continued increase in loan interest revenue is a result of an increase in loan repayments and is a general indication of the continued growth of the SRF program.

General revenue increased by \$7 million or 96% in 2006 and by \$2.4 million or 50% in 2005. The fluctuation in investment income is the product of various factors such as changes in the Surplus Money Investment Fund (SMIF) interest rate from year to year, and interest earned from the undistributed portion of the Series 2002 revenue bonds and loan repayments.

Total expenses increased \$ 5.7 million in 2006 and decreased by \$0.5 million in 2005. This increase was primarily due to the program resuming making new loan commitments and recording an allowance for bad debt.

The total capital contributions to the SRF decreased by \$16.2 million or 22.2% in 2006 from prior year, while contributions in 2005 increased by \$25.6 million or 54%. The SRF program receives federal capital contributions from the EPA to fund loans and the State of California (State) is required to match 20% of this contribution. The decrease in capital contributions in 2006 is primarily due to decreased utilization of U.S. Environmental Protection Agency (EPA) capitalization grants. The increase in capital contributions in 2005 denotes the resumption of larger federal draws to fund new loans now that the 2002 Series Revenue Bond proceeds are largely disbursed.

During 2006, administrative expenses were \$4.02 million, which has remained consistent with administrative expenses of \$4.1 million in 2005 and \$4.09 million in 2004.

Table 2**Changes in Net Assets**
(in thousands)

	Year Ended June 30,		
	2006	2005	2004
Revenues			
Program revenues:			
Loan interest income	\$ 50,390	\$ 47,907	\$ 46,810
General revenues:			
Investment income	14,350	7,311	4,877
Total revenues	64,740	55,218	51,687
Expenses			
Program expenses:			
Administrative expenses	4,022	4,100	4,088
Bad debt allowance expense	6,486	-	-
Revenue bond interest expense	9,812	10,424	10,923
Amortization of revenue bond issuance costs	107	114	120
Total expenses	20,427	14,638	15,131
Increase in net assets before contributions	44,313	40,580	36,556
Capital contributions:			
EPA capitalization grant	43,910	64,450	40,206
State and other contributions	13,032	8,732	7,322
Subtotal capital contributions	56,942	73,182	47,528
Change in net assets	101,255	113,762	84,084
Net assets - beginning of year	2,193,554	2,079,792	1,995,708
Net assets - end of year	\$ 2,294,809	\$ 2,193,554	\$ 2,079,792

Budgetary Information

Under the California constitution, money may only be drawn from the treasury by a legal appropriation. The State Legislature authorized the SRF to operate under a continuous appropriation. Continuous appropriation authority means that no further appropriations are necessary to expend all funds deposited into the SRF. This has the effect of allowing funds to be expended as soon as they are deposited into the SRF rather than waiting for appropriation authority. Since the funds in the SRF can only be used for limited purposes, the continuous appropriation authority allows for expeditious expenditure of funds and maximizes the benefits to local entities.

Debt Administration

The Board administers a leveraged SRF program. The Board maintains a high bond rating from Fitch (AAA), Moody's Investors Service (Aaa), and Standard and Poor's Ratings Services (AAA) on its Revenue Bonds, Series 2002. Outstanding bonds at June 30, 2006 total \$264 million, a decrease of \$23 million, compared to \$287 million last year as shown in Table 3. Outstanding bonds at June 30, 2005 total \$287 million a decrease of \$23 million compared to \$310 million in the prior year as shown in Table 3. These decreases are due to amortization of the bond premium and the payment of the scheduled bond principal repayments. Those bonds were issued in August 2002 for the purpose of financing a portion of the SRF loans administered by the Board by providing financial assistance to local governments for water pollution control projects. Proceeds from the bonds provide funding for the issuance of additional revolving fund loans by the SRF. Those revenue bonds are backed by a pledge of specific revenue for which the annual collections are generally predictable.

Additional information on the SRF long-term debt can be found in Note 5, Long-Term Debt.

Table 3

Outstanding Long-term Debt
(in thousands)

	<u>2006</u>	<u>June 30,</u> <u>2005</u>	<u>2004</u>
Revenue bonds			
Bond principal	\$ 256,390	\$ 278,575	\$ 300,000
Bond premium	7,562	8,873	10,267
Total revenue bonds	<u>\$ 263,952</u>	<u>\$ 287,448</u>	<u>\$ 310,267</u>

Economic Conditions and Outlook

The SRF program activity remained stable, with revenues continuing to sufficiently support expenses. Because each SRF loan recipient must pledge one or more dedicated sources of revenue toward repayment of its SRF loan, timely repayment of all loans is expected. These dedicated sources of revenue can be sewer rate revenue pledges, general tax pledges or other contractual income, most of which are not greatly affected by the above mentioned economic factors.

The SRF financial statements for 2006 include an allowance for bad debt. This allowance recognizes the present status of a case between the Board and a loan recipient which is currently pending in the California Superior Court. The Board intends to vigorously pursue all legal means to recover the funds disbursed to the recipient and anticipates the recovery of all funds.

For the grant year 2006, the EPA has allocated \$46.4 million to the State. The 2006 grant allocation for 2006 decreased by \$36.3 million as compared to the 2005 grant allocation of \$82.7 million. The Fund has already applied for this 2006 capitalization grant and was awarded the grant on July 3, 2006. The required matching State funds are also expected to be available to the Fund.

The Board is looking at the availability of funds in the future to administer the SRF program. To date, the Board has relied on the four percent administrative allowance from EPA capitalization grants for the funds to administer the SRF. The 2006 grant allocation is \$46.4 million, less than half of the approximately \$95 million annual grant awards for the prior four years. Furthermore, recent indications from EPA are that grants will continue to decrease in the future, and possibly be eliminated by 2011. Due to the potential reductions in future capitalization grants, the Board is exploring various options, including seeking a change in State law to allow a portion of the loan repayments to be used for administrative costs, ensuring sufficient funds are available to administer the SRF program.

The Board resumed making loan commitments to projects in September 2005 after a suspension of approximately 20 months. The voters of California will be asked to approve Proposition 84, the *Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006*, at the November 7, 2006, statewide general election. Proposition 84, if approved, will provide \$80 million in state matching funds for the SRF program. The Board is also pursuing a second bond sale to provide additional funds for projects and to ensure stable and continuous funding of loans. The Board approved the sale of an additional \$300 million in revenue bonds at its September 22, 2005, meeting. The Board is working with its financial advisors to schedule the sale of additional revenue bonds.

Requests for Information

This financial report is designed to provide interested parties with a general overview of the SRF finances. Questions concerning the information provided in this report or requests for additional information should be addressed to Mr. Jerrel Bolds, Manager, Accounting Division, Division of Administrative Services, P.O. Box 100, Sacramento, California 95812.

BASIC FINANCIAL STATEMENTS

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF NET ASSETS
June 30, 2006 and 2005
(in thousands)

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 328,541	\$ 221,182
Cash and cash equivalents - Restricted	76,342	97,141
Receivables:		
Loan interest	28,254	26,568
Investment interest	4,560	2,215
Due from other funds and other governments	4,218	5,436
Loans receivable:		
Current portion	72,268	53,644
Current portion - Restricted	58,300	62,434
Unamortized revenue bond issuance costs	101	107
Total current assets	<u>572,584</u>	<u>468,727</u>
OTHER ASSETS		
Noncurrent unamortized revenue bond issuance costs	519	620
Loans receivable:		
Noncurrent (net of allowance for bad debt)	1,420,827	1,388,784
Noncurrent - Restricted	569,003	627,588
Total other assets	<u>1,990,349</u>	<u>2,016,992</u>
TOTAL ASSETS	<u>2,562,933</u>	<u>2,485,719</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Revenue bond interest payable	2,739	2,906
Deferred revenue	126	137
Due to other funds	631	873
Revenue bonds payable	24,077	23,497
Total current liabilities	<u>27,573</u>	<u>27,413</u>
NONCURRENT LIABILITIES		
Deferred revenue	676	801
Revenue bonds payable	239,875	263,951
Total noncurrent liabilities	<u>240,551</u>	<u>264,752</u>
Total liabilities	<u>268,124</u>	<u>292,165</u>
NET ASSETS		
Restricted for:		
Debt service	39,978	56,475
Security for revenue bonds	627,303	690,022
Unrestricted	1,627,528	1,447,057
Total net assets	<u>\$ 2,294,809</u>	<u>\$ 2,193,554</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2006 and 2005
(in thousands)

	<u>2006</u>	<u>2005</u>
OPERATING REVENUE		
Loan interest income	\$ 50,390	\$ 47,907
Total operating revenue	<u>50,390</u>	<u>47,907</u>
OPERATING EXPENSES		
Personnel services	2,503	2,464
Other expenses	1,498	1,618
Bad debt allowance expense	6,486	-
Total operating expenses	<u>10,487</u>	<u>4,082</u>
INCOME FROM OPERATIONS	<u>39,903</u>	<u>43,825</u>
NONOPERATING REVENUE (EXPENSE)		
Net investment income	14,350	7,311
Revenue bond interest expense	(9,812)	(10,424)
Bond fees	(21)	(18)
Amortization of revenue bond issuance costs	(107)	(114)
Total nonoperating (expense)	<u>4,410</u>	<u>(3,245)</u>
INCOME BEFORE CONTRIBUTIONS	44,313	40,580
CONTRIBUTIONS		
EPA capitalization grant	43,910	64,450
State match revenue	10,049	8,732
Other State contributions	<u>2,983</u>	<u>-</u>
CHANGE IN NET ASSETS	101,255	113,762
NET ASSETS - BEGINNING OF YEAR	<u>2,193,554</u>	<u>2,079,792</u>
NET ASSETS - END OF YEAR	<u>\$ 2,294,809</u>	<u>\$ 2,193,554</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2006 and 2005
(in thousands)

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interest on loans	\$ 46,584	\$ 44,526
Loans disbursed	(118,568)	(211,981)
Principal received on loans receivable	129,100	114,845
Cash paid to employees and vendors	(4,245)	(3,943)
Cash flows provided (required) from operating activities	<u>52,871</u>	<u>(56,553)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received from EPA capitalization grant	45,095	63,476
Funds received from the State of California	10,084	8,592
Bond fees paid	(21)	(18)
Principal paid on revenue bonds	(22,185)	(21,425)
Interest paid on revenue bonds	(11,290)	(12,007)
Cash flows provided by noncapital financing activities	<u>21,683</u>	<u>38,618</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment income received	<u>12,006</u>	<u>6,296</u>
Net cash provided by investing activities	<u>12,006</u>	<u>6,296</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	86,560	(11,639)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	318,323	329,962
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 404,883</u>	<u>\$ 318,323</u>
Reconciliation of operating income to net cash provided (required) by operating activities		
Income from operations	\$ 39,903	\$ 43,825
Adjustments to reconcile income from operations to net cash provided (required) by operating activities		
Construction period interest	(1,983)	(2,023)
Amortization of deferred revenue	(135)	(144)
Effect of changes in operating assets and liabilities:		
Loans receivable	17,013	(97,316)
Loan interest receivable	(1,685)	(1,034)
Due to other funds	(242)	139
Total adjustments	<u>12,968</u>	<u>(100,378)</u>
Net cash provided (required) by operating activities	<u>\$ 52,871</u>	<u>\$ (56,553)</u>
NONCASH TRANSACTIONS		
Loans receivable contributed	\$ 2,983	\$ -

These financial statements should be read only in connection with
the accompanying notes to financial statements.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(Dollar Amounts Expressed in Thousands)

NOTE 1 - DEFINITION OF REPORTING ENTITY

The California State Water Resources Control Board, Water Pollution Control Revolving Fund (Fund) was established pursuant to Title VI of the Federal Clean Water Act of 1987 (Act). The Act established the State Revolving Fund (SRF) program to replace the construction grants program to provide loans at reduced interest rates to finance the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and estuary management plans. Instead of making grants to communities that pay for a portion of building wastewater treatment facilities, the SRF provides for low interest loans to finance the entire cost of qualifying projects. The SRF provides a flexible financing source that can be used for a variety of pollution control projects, including non-point source pollution control projects, and developing estuary conservation and management plans. Loans made must be repaid within 20 years and all repayments, including interest and principal, must remain in the Fund.

Since 1989, the Fund has been capitalized by a series of grants from the U.S Environmental Protection Agency (EPA). States are required to provide matching funds equal to 20 percent of the Federal capitalization grant amount in order to receive the grants from the EPA. As of June 30, 2006 and 2005, the EPA has awarded cumulative capitalization grant funding of \$1,791,773 and \$1,709,107, respectively to the State of California (State), for which the State is required to provide \$358,355 and \$341,821, respectively, of cumulative matching funding to the Fund.

The Fund is administered by the California State Water Resources Control Board (Board), a part of the California Environmental Protection Agency, through the Division of Financial Services (Program). The Board's primary responsibilities with the SRF include obtaining capitalization grants from the EPA, soliciting potential interested parties, negotiating loan agreements with local communities, reviewing and approving payment requests from loan recipients, managing the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements. The Board consists of five member positions, which are appointed by the Governor and confirmed by the Senate.

The Board administers the SRF program by charging the Fund for time spent on SRF activities by employees of the Board, and the Fund reimburses the State's Fund for such costs in the following month. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Fund based on direct salary costs. Employees charging time to the Fund are covered by the benefits available to State employees. The Fund is also charged indirect costs through the cost allocation plan for general State expenses.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(Dollar Amounts Expressed in Thousands)

NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)

Reporting Entity

The Fund follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The activities of the Fund are included in the State's Comprehensive Annual Financial Report as an enterprise fund using the accrual basis of accounting.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Fund conform to generally accepted accounting principles as applicable to a governmental unit accounted for as a proprietary enterprise fund. The enterprise fund is used since the Fund's powers are related to those operated in a manner similar to a for profit business where an increase in net assets is an appropriate determination of accountability.

Basis of Accounting

The Fund's records are maintained on the accrual basis of accounting. Under the accrual basis of accounting revenue is recognized when earned and expenses are recognized when the liability is incurred. Assets and liabilities associated with the operations of the Fund are included in the Statements of Net Assets.

The Fund has elected to follow Governmental Accounting Standards Board pronouncements as well as statements issued by the Financial Accounting Standards Board on or before November 30, 1989, unless the pronouncements conflict with or contradict Governmental Accounting Standards Board pronouncements.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(Dollar Amounts Expressed in Thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

The Fund distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Assets. Operating revenues and expenses generally result from carrying out the purpose of the Fund of providing low interest loans to communities and providing assistance for prevention programs and administration. Operating revenues consist of loan interest repayments from borrowers. Operating expenses include direct salary costs and benefits expenses, allocated indirect costs and an allowance for bad debt. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

In accordance with generally accepted accounting principles, monies received from the EPA and the State are recorded as capital contributions. In certain circumstances, local communities have contributed the State's matching share in exchange for reduced interest rate loans, as discussed in Note 4.

Budgets

Under the California constitution, money may only be drawn from the Treasury by legal appropriation. The State Legislature authorized the SRF to operate under a continuous appropriation. Continuous appropriation authority means that no further appropriations are necessary to expend all funds deposited into the SRF. Therefore, the Fund operations are not included in California's annual budget.

Cash and Cash Equivalents

Nearly all monies of the Fund are deposited with the California State Treasurer's office, which is responsible for maintaining these deposits in accordance with California State law. The Fund considers all such deposits to be cash equivalents. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund, as discussed in Note 3. Consequently, management of the Fund does not have any control over the investment of the excess cash. Investment earnings on these deposits are received quarterly. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(Dollar Amounts Expressed in Thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable

Loans are funded by capitalization grants from the EPA, State matching funds, local contributions, revenue bond proceeds, loan repayments and fund earnings. Loans are advanced to local agencies on a cost reimbursement basis. Interest is calculated from the date that funds are advanced. After the final disbursement has been made, the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period (Construction Period Interest). Loans are amortized over periods up to 20 years. Loan repayments must begin within one year of construction completion or one year from the initial loan disbursement, depending upon the type of loan agreement, and are made on an annual basis.

Revenue Bond Issue Costs and Original Issue Premium

Revenue bond issue costs and original issue premium are being amortized over the term of the bonds using the interest method.

Reclassifications

For comparability, certain 2005 amounts have been reclassified where appropriate to conform to the 2006 financial statement presentation.

NOTE 3 - CASH AND INVESTMENTS

The California State Treasurer's Office administers a pooled investment program for the State. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs. The necessary disclosures for the State's pooled investment program are included in the Comprehensive Annual Financial Report of the State of California.

Nearly all monies of the Fund are deposited with the State Treasurer's Office and are considered to be cash equivalents. The Treasurer is responsible for maintaining the cash balances in accordance with California laws, and excess cash is invested in California's Surplus Money Investment Fund, which is part of the Pooled Money Investment Account. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs, without prior notice or penalty.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
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NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

The investments allowed by State statute, bond resolutions and investment policy resolutions restrict investments of the pooled investment program to investments in U.S. Government securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds, and other investments. The Fund's proportionate share of the investment income, based on the average daily balance for the period, is credited to the Fund quarterly. The Treasurer charges all funds of the State an administrative fee, which reduces the interest earned by each fund. All cash and investments are stated at fair value. Details of the investments can be obtained from the State Treasurer's Office.

At June 30, 2006 and 2005, the Fund's cash deposits had a carrying balance of \$6 and \$4, respectively.

Investments held by the State Treasurer are stated at fair value.

<u>Investments</u>	<u>2006</u>	<u>2005</u>
Treasury/Trust Portfolio	<u>\$ 404,877</u>	<u>\$ 318,319</u>
Total cash deposits and investments	<u>\$ 404,883</u>	<u>\$ 318,323</u>

The State Treasurer is responsible for investing funds of the Treasury/Trust Portfolio and managing the credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency credit risk of the Portfolio. Refer to the State's Pooled Investments disclosure in the June 30, 2006 and 2005, Comprehensive Annual Financial Reports for disclosure related to the risks applicable to the Portfolio.

Cash deposits and investments are reflected on the June 30, 2006 and 2005 statement of net assets as follows:

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 328,541	\$ 221,182
Cash and cash equivalents - Restricted	76,342	97,141
Total cash deposits and investments	<u>\$ 404,883</u>	<u>\$ 318,323</u>

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
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(Dollar Amounts Expressed in Thousands)

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Cash and investments in the amount of \$19,460 and \$23,761, representing unspent revenue bonds proceeds and investment earnings, at June 30, 2006 and 2005, respectively, were restricted for future loan disbursements. Additionally, cash and investments in the amount of \$56,882 and \$73,380, representing various reserve accounts required by the revenue bonds, at June 30, 2006 and 2005, respectively, were restricted for debt service.

NOTE 4 - LOANS RECEIVABLE

Loans are made to qualified agencies for projects that meet the eligibility requirements of the Federal Clean Water Act of 1987. Loans are financed with capitalization grants, state match, local contributions, revenue bond proceeds and revolving loan funds. Interest rates vary between 1.8 and 4.0 percent and are generally repaid over 20 years starting one year after the project is completed. Interest rates are established in the original loan agreements and are 50 percent of the State's General Obligation Bond Rate at the time the loan commitment is made, except for the local match loans. Interest earned during the construction period is calculated from the date funds are disbursed until the project is completed.

As of June 30, 2006 and 2005, the Fund had total binding loan commitments of \$3,536,707 and \$3,026,166, respectively, since inception of the Fund. The remaining commitment on these loans as of June 30, 2006 and 2005 amounted to \$470,276 and \$120,114, respectively.

At June 30, 2006 and 2005 the unpaid balance on all loans receivable outstanding amounted to \$2,120,398 and \$2,132,450, respectively.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
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NOTE 4 - LOANS RECEIVABLE (CONTINUED)

Estimated maturities of the loans receivable, and interest payments thereon, at June 30, 2006 are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	\$ 44,108	\$ 130,568	\$ 174,676
2008	41,112	123,140	164,252
2009	37,962	125,437	163,399
2010	34,789	127,008	161,797
2011	31,550	129,947	161,497
2012-2016	111,111	588,151	699,262
2017-2021	47,330	458,619	505,949
2022-2026	6,768	163,703	170,471
Total	<u>\$ 354,730</u>	<u>1,846,573</u>	<u>\$ 2,201,303</u>
Loans not yet in repayment		280,311	
Allowance for bad debt		(6,486)	
Total loans receivable		<u>\$ 2,120,398</u>	

Restricted Loans Receivable

At June 30, 2006 and 2005, \$627,303 and \$690,022, respectively, of loans receivable were pledged as security for the revenue bonds outstanding (see Note 5). The principal and interest received during the fiscal year from these loans is to be used to make the annual debt service payments on the revenue bonds. During the year ended June 30, 2006 the Fund received \$62,719 and \$19,478 of principal and interest, respectively, on these loans, and during the year ended June 30, 2005, the Fund received \$63,041 and \$21,788 of principal and interest, respectively, on these loans. Any excess of the principal and interest received over the debt service payments required and the required debt service reserve accounts may be released from restriction upon request of the Fund in the event certain requirements are met.

Local Match Loans

The Fund offers the option of obtaining reduced interest rate loans. In order to obtain one of these loans, the local agency must provide the State's matching share of the loan, generally one-sixth or 16.7 percent of the total loan amount. The borrower then repays 100 percent of the loan, including the amount reflected as State matching funds, over a period of twenty years. Borrowers also have the option of remitting the State share of the loan to the Fund when the loan is awarded or paying the State share as the project progresses.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
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NOTE 4 - LOANS RECEIVABLE (CONTINUED)

For loans where the borrower elects to remit the State's match to the Fund at the time the loan is awarded, the amounts remitted are recorded as deferred revenue and are amortized over the life of the loan. For the loans in which the borrowers repay the Fund over 20 years, the Fund considers a portion of such loans to be a loan origination fee. Such fees are amortized over the life of the loan as an adjustment to the stated interest rate. The imputed interest rate on these loans is approximately 1.8 percent.

As of June 30, 2006 and 2005, the Fund had authorized a total of \$1,243,206 and \$986,721, respectively, of reduced interest rate loans. From these authorizations, certain borrowers elected to remit the State match at the time the loan was awarded in the amount of \$2,296 as of June 30, 2006 and 2005. The remaining borrowers elected to repay the State match over a period of 20 years, in the amount of \$161,505 and \$154,031 as of June 30, 2006 and 2005, respectively. As of June 30, 2006 and 2005, total local match loans outstanding amounted to \$702,951 and \$698,431, respectively, and the remaining State match to be repaid amounted to \$120,206 and \$124,626, respectively.

Loans to Major Local Agencies

The Fund has made loans to the following major local agencies. The aggregate outstanding loan balances for each of these agencies exceeds 5 percent of total loans receivable. The combined outstanding loan balances at June 30, 2006 and 2005 of these major local agencies represent approximately 34 and 35 percent, respectively, of the total loans receivable and are as follows:

<u>Borrower</u>	2006		2005
	<u>Authorized Loan Amount</u>	<u>Outstanding Loan Balance</u>	<u>Outstanding Loan Balance</u>
Los Angeles County Sanitation District	\$ 437,206	\$ 322,652	\$ 330,597
City of Los Angeles	180,000	143,704	149,999
City and County of San Francisco	281,855	118,869	134,783
City of Santa Rosa	158,686	132,647	139,440
	<u>\$ 1,057,747</u>	<u>\$ 717,872</u>	<u>\$ 754,819</u>

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
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NOTE 5 - LONG-TERM DEBT

The detail of the Fund's long-term debt is as follows:

	Balance June 30, 2005	Issuances	Retirements	Balance June 30, 2006	Due Within One Year
Series 2002 Revenue Bonds:					
Bond principal	\$ 278,575	\$ -	\$ 22,185	\$ 256,390	\$ 22,850
Bond premium	8,873	-	1,311	7,562	1,227
	<u>287,448</u>	<u>\$ -</u>	<u>\$ 23,496</u>	<u>263,952</u>	<u>\$ 24,077</u>
Less current portion:					
Bond principal	(22,185)			(22,850)	
Bond premium amortization	(1,312)			(1,227)	
Long-term portion	<u>\$ 263,951</u>			<u>\$ 239,875</u>	

	Balance June 30, 2004	Issuances	Retirements	Balance June 30, 2005	Due Within One Year
Series 2002 Revenue Bonds:					
Bond principal	\$ 300,000	\$ -	\$ 21,425	\$ 278,575	\$ 22,185
Bond premium	10,267	-	1,394	8,873	1,312
	<u>310,267</u>	<u>\$ -</u>	<u>\$ 22,819</u>	<u>287,448</u>	<u>\$ 23,497</u>
Less current portion:					
Bond principal	(21,425)			(22,185)	
Bond premium amortization	(1,393)			(1,312)	
Long-term portion	<u>\$ 287,449</u>			<u>\$ 263,951</u>	

On August 7, 2002, the Fund issued \$300,000 of California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2002, dated August 1, 2002, with interest of 3% to 5%. These serial bonds are due annually in varying amounts through 2018. The interest on the bonds is due semi-annually on April 1 and October 1. The bonds maturing on or after October 1, 2013 are subject to redemption prior to their respective stated maturities at the option of the Fund on any date on or after October 1, 2012 without call premium. The bonds were issued to provide funding for the issuance of additional revolving fund loans by the Fund.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
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NOTE 5 - LONG-TERM DEBT (CONTINUED)

At the time of issuance of the revenue bonds by the Fund, the Fund pledged in excess of \$850,000 of outstanding loans receivable of the Fund as security for the bonds (see Note 4). The principal and interest received during the fiscal year from these loans is to be used to make the annual debt service payments on the revenue bonds. Any excess of the principal and interest received over the debt service payments required and the required debt service reserve accounts may be released from restriction upon request of the Fund in the event certain requirements are met.

The Fund's long-term debt will mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 22,850	\$ 10,589	\$ 33,439
2008	23,585	9,773	33,358
2009	22,930	8,963	31,893
2010	23,655	8,103	31,758
2011	24,390	7,066	31,456
2012-2016	102,150	19,937	122,087
2017-2019	36,830	2,433	39,263
	<u>\$ 256,390</u>	<u>\$ 66,864</u>	<u>\$ 323,254</u>

NOTE 6 - CAPITAL CONTRIBUTIONS

The Fund is capitalized by annual grants from the EPA. The State must also contribute an amount equal to 20 percent of the federal capitalization amount. The State's matching contribution has been provided through the appropriation of State resources as well as through the use of loans from the Water Reclamation program. All funds drawn are recorded as non-operating revenue from the EPA and the State. As of June 30, 2006 and 2005, the EPA has awarded cumulative capitalization grants of \$1,791,773 and \$1,709,107, respectively, to the State, of which \$1,593,114 and \$1,549,204, respectively, has been drawn, cumulatively, for loans and administrative expenses. The State has provided matching funds of \$266,781 and \$253,749, respectively.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
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NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)

As discussed in Note 4, certain borrowers have contributed a portion of the State's required 20 percent match in exchange for reduced interest rate loans. The EPA allows the State to include amounts provided by borrowers under certain local matching loans in meeting the State's statutory matching obligation. As of June 30, 2006 and 2005, the borrowers had contributed \$163,802 and \$156,327, respectively, which may potentially qualify as meeting the State's matching requirement.

Table I summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of June 30, 2006 and 2005, and balances available for future loans as of June 30, 2006. Table 2 summarizes the state match amounts paid by the state and local entities as of June 30, 2006 and 2005. The state match required as of June 30, 2006 is \$318,623. The state match available for potential future state match as of June 30, 2006, is \$108,887.

TABLE I

Year	Grant Award	Funds Drawn As of June 30, 2004	Funds Drawn During Year Ended June 30, 2005	Funds Drawn As of June 30, 2005	Funds Drawn During Year Ended June 30, 2006	Funds Drawn As of June 30, 2006	Available for Loans as of June 30, 2006
1989-2000	\$ 1,329,586	\$ 1,329,586	\$ -	\$ 1,329,586	\$ -	\$ 1,329,586	\$ -
2001	95,135	94,816	319	95,135	-	95,135	-
2002	95,126	60,352	34,754	95,106	20	95,126	-
2003	94,647	-	29,377	29,377	43,090	72,467	22,180
2004	94,613	-	-	-	800	800	93,813
2005	82,666	-	-	-	-	-	82,666
	<u>\$ 1,791,773</u>	<u>\$ 1,484,754</u>	<u>\$ 64,450</u>	<u>\$ 1,549,204</u>	<u>\$ 43,910</u>	<u>\$ 1,593,114</u>	<u>\$ 198,659</u>

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)

TABLE 2

	State Match Paid As of June 30, 2004	State Match Paid During Year Ended June 30, 2005	State Match Paid As of June 30, 2005	State Match Paid During Year Ended June 30, 2006	State Match Paid As of June 30, 2006
State Disbursed	\$ 245,017	\$ 8,732	\$ 253,749	\$ 13,032	\$ 266,781
Local Disbursed	143,216	13,111	156,327	7,475	163,802
	<u>\$ 388,233</u>	<u>\$ 21,843</u>	<u>\$ 410,076</u>	<u>\$ 20,507</u>	<u>\$ 430,583</u>

Restricted Funds

State matching funds for the 1993 capitalization grant and portions of the 1994 and 1995 capitalization grants were provided by the transfer of \$34,316 of outstanding loans and loan interest earned from California Water Reclamation Loan Fund. In 2006, an additional \$3,545 of outstanding loans and loan interest was transferred to the Fund for future match requirements. Repayments of these loans are restricted for future water reclamation loans that are eligible under the SRF program.

NOTE 7 - RISK MANAGEMENT

The Fund participates in the State of California's Risk Management Program. The State has elected, with a few exceptions, to be self-insured against loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, settled claims have not exceeded insurance coverage in the last three fiscal years. Refer to the State's Risk Management disclosure in the June 30, 2006 and 2005, Comprehensive Annual Financial Reports.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 - RETIREMENT PLAN

Plan Description

All of the employees of the Fund participate in the California Public Employees' Retirement System (CalPERS), which is included in the State of California's Comprehensive Annual Financial Report as a pension trust fund. CalPERS administers the Public Employees' Retirement Fund (PERF). PERF is an agent multiple-employer defined benefit retirement plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Departments and agencies within the State of California, including the Fund, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report may be obtained by writing California Public Employees' Retirement System, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

The pension plan provides retirement benefits, survivor benefits, and death and disability benefits based upon the employee's years of credited service, age and final compensation. Vesting occurs after five or ten years of credited services depending on the benefit tier. Employees who retire at or after age 50 with five or more years of service are entitled to a retirement benefit, payable monthly for the remainder of their lives. Benefit provisions and all other requirements are established by State statute.

Funding Policy

The Fund is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERF Board of Administration. The required contribution rates for the years ended June 30, 2006 and 2005, were 15.942% and 17.022%, respectively, for State Miscellaneous First Tier and 15.890% and 13.216%, respectively, for State Miscellaneous Second Tier. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Contributions, annual pension costs and trend information attributable to employees of the Fund for the fiscal year ended June 30, 2006 and 2005, are not determinable at the Fund level. However, this information is reported at a statewide level in the State of California's Comprehensive Annual Financial Report.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
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NOTE 8 - RETIREMENT PLAN (CONTINUED)

Post-Employment Benefits Other than Pension

In addition to the pension benefits provided by the State, the State also provides post-retirement health care benefits, in accordance with Section 22754(g) of the State Government Code, to all employees who retire from the State on or after attaining certain age and length of service requirements. The post-retirement health care benefits are funded by the State's General Fund on a pay-as-you-go basis.

NOTE 9 - NET ASSETS

Governmental Accounting Standards Board Statement No. 34 provides for three components of net assets: invested in capital assets, net of related debt, restricted and unrestricted.

As of June 30, 2006 and 2005, the Fund had no net assets invested in capital assets, net of related debt.

Restricted net assets include net assets that are restricted for use, either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. At June 30, 2006 and 2005, the Fund had restricted net assets of \$39,978 and \$56,475, respectively, representing amounts received from borrower loan repayments on pledged loans, which are restricted for future bond debt service payments and \$627,303 and \$690,022, respectively, representing loans receivable pledged as security for the revenue bonds (see Note 5).

Unrestricted net assets consists of net assets that do not meet the definition of invested in capital assets, net of related debt or restricted. Although the Fund reports unrestricted net assets on the face of the statements of net assets, unrestricted net assets are to be used by the Fund for the payment of obligations incurred by the Fund in carrying out its statutory powers and duties and are to remain in the Fund.

NOTE 10 - LITIGATION

There is one lawsuit pending in regard to the Fund in which the Board is involved. Board management and its legal counsel estimate that the potential claims against the Board not covered by the State of California's Risk Management Program resulting from such litigation would be insignificant. Therefore, the pending litigation has no financial implication to the Fund.

This information is an integral part of the accompanying financial statements.

**REPORTS REQUIRED BY THE
SINGLE AUDIT ACT AMENDMENTS OF 1996**

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006**

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Environmental Protection Agency</u>		
Direct Programs:		
Capitalization Grants for State Revolving Funds	66.458	<u>\$ 43,909,629 (*)</u>

(*) Tested as a Major Program

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the California State Water Resources Control Board, Water Pollution Control Revolving Fund. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

NOTE 2 - LOANS TO SUBRECIPIENTS

Capitalization Grants for Clean Water State Revolving Fund CFDA# 66.458 include \$40,536,599 of expenditures that were disbursed as loan awards to qualifying subrecipients.



**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

California State Water Resources Control Board
Water Pollution Control Revolving Fund
Sacramento, California

We have audited the basic financial statements of the California State Water Resources Control Board, Water Pollution Control Revolving Fund (Water Pollution Control Revolving Fund) as of and for the year ended June 30, 2006 and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Water Pollution Control Revolving Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Water Pollution Control Revolving Fund's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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This report is intended solely for the information and use of Water Pollution Control Revolving Fund's management and the U.S. Environmental Protection Agency and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Greenwood Village, Colorado
September 8, 2006



**Independent Auditor's Report on Compliance with
Requirements Applicable to the Major Program
and on Internal Control Over Compliance in
Accordance with OMB Circular A-133**

California State Water Resources Control Board
Water Pollution Control Revolving Fund
Sacramento, California

Compliance

We have audited the compliance of the California State Water Resources Control Board, Water Pollution Control Revolving Fund (Water Pollution Control Revolving Fund) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. Water Pollution Control Revolving Fund's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Water Pollution Control Revolving Fund's management. Our responsibility is to express an opinion on Water Pollution Control Revolving Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Water Pollution Control Revolving Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Water Pollution Control Revolving Fund's compliance with those requirements.

As described in item 2006-01 in the accompanying schedule of findings and questioned costs, Water Pollution Control Revolving Fund did not comply with requirements regarding Subrecipient Monitoring that are applicable to its Capitalization Grants for Clean Water State Revolving Funds (CFDA No. 66.458). Compliance with such requirements is necessary, in our opinion, for Water Pollution Control Revolving Fund to comply with requirements applicable to that program.

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In our opinion, except for the noncompliance described in the preceding paragraph, Water Pollution Control Revolving Fund complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006

Internal Control Over Compliance

The management of Water Pollution Control Revolving Fund is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Water Pollution Control Revolving Fund's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Water Pollution Control Revolving Fund ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2006-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Water Pollution Control Revolving Fund's management and the U.S. Environmental Protection Agency and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Greenwood Village, Colorado
September 8, 2006

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006**

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified
Internal control over financial reporting:
Material weakness(es) identified? ☐ yes ☒ no
Reportable condition(s) identified
not considered to be material weaknesses? ☐ yes ☒ none reported
Noncompliance material to financial statements
noted? ☐ yes ☒ no

Federal Awards

Internal control over major program:
Material weakness(es) identified? ☐ yes ☒ no
Reportable condition(s) identified
not considered to be material weaknesses? ☒ yes ☐ none reported
Type of auditor's report issued on compliance
for major program: Qualified
Any audit findings disclosed that are required
to be reported in accordance with section 510 (a)
of OMB Circular A-133? ☒ yes ☐ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
66.458	Capitalization Grants for State Revolving Funds

Dollar threshold used to distinguish between

Type A and Type B programs: \$1,317,289
Auditee qualified as low-risk auditee? ☒ yes ☐ no

PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS

There were no findings required to be reported under generally accepted *Government Auditing Standards*.

PART III - FINDINGS RELATED TO FEDERAL AWARDS

Reference Number: 2006-01
Federal Catalog Number: 66.458
Federal Program Title: Capitalization Grants for Clean Water State Revolving Funds
Category of Finding: Subrecipient Monitoring
State Administering Subdivision: California State Water Resources Control Board

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006**

CRITERIA

Section .400 (d) of OMB Circular A-133 requires a pass-through entity to perform the following for the federal awards it makes:

- (1) Identify federal awards made by informing each subrecipient of the CFDA title and number, award name and number, award year, if the award is research and development, and name of the federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the federal award.
- (2) Advise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely correction action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records of financial statements as necessary for the pass-through entity to comply with OMB Circular A-133.

CONDITION

Subrecipients were not notified of all required federal award information pertaining to the federal award as noted in (1) above. Additionally, single audits were not completed or not properly completed by certain subrecipients in accordance with (4) above.

EFFECT

California State Water Resources Control Board, Water Pollution Control Revolving Fund (Fund) is not in compliance with certain pass-through entity responsibilities.

QUESTIONED COSTS

\$26,061,094

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006**

CONTEXT

Generally, the subrecipients of the federal awards have June 30 year ends, and as a result due to the fiscal year ends and the completion of audits by subrecipients, testing was limited to single audits submitted for the fiscal year ended June 30, 2005. Six of ten subrecipients required to have single audits completed in accordance with OMB Circular A-133 either did not have them completed or the audits were not properly completed. Four of the six did not have a single audit completed and two of the six had single audits completed, however the Capitalization Grant for Clean Water State Revolving Funds (CFDA No. 66.458) was not listed on the Schedule of Expenditures of Federal Awards. Neither the California State Controller's Office or the Fund followed up with the entities regarding the lack of completed single audits or improperly completed single audits for the year ended June 30, 2005. The total federal funds disbursed to the six subrecipients by the Fund for the year ended June 30, 2005 for which no single audit was completed or was improperly completed was \$26,061,094. The total reported expenditures of federal awards reported by the Fund on the Schedule of Expenditures of Federal Awards for the year ended June 30, 2005 was \$64,450,038, of which \$61,005,181 was passed through to subrecipients.

CAUSE

Required federal award information was not included in the loan contracts with subrecipients or otherwise communicated to subrecipients. Additionally, the Water Pollution Control Revolving Fund and the California State Controller's Office have not developed an effective process to ensure that subrecipients receiving federal awards in excess of \$500,000 are having single audits completed and submitted when required. Additionally there is not timely follow-up in instances where single audits are required to be submitted but are not received.

RECOMMENDATION

We recommend the Water Pollution Control Revolving Fund communicate all required federal award identification information in their contracts with subrecipients. Additionally, we recommend that all subrecipients receiving federal awards be notified annually of the amount of federal awards disbursed to them. The subrecipient should also be notified that a single audit is to be completed if total federal awards received from all sources during the fiscal year exceeded \$500,000. The California State Controller Office should be included in this communication so that appropriate follow-up can be performed on the single audits received.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Management agrees with the comment, except for the questioned costs. The management of the Fund has implemented significant review processes regarding the disbursement of federal awards to subrecipients to ensure that federal awards are disbursed for allowable activities and allowable costs. Accordingly, management of the Fund believes this to be a compliance finding with no questioned costs.

Management was aware of this requirement and had already begun notifying all agencies that received more than \$500,000 in Federal funds for the year ended June 30, 2006. Management is following up with the State Controller's Office of California for missing or improperly

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006**

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performed single audits for the years ended June 30, 2005 and 2006. Management of the Fund will develop a method of communicating the required information to subrecipients. Management will also report, on an annual basis, to subrecipients, the amount of Federal awards disbursed to the subrecipients. In addition, management will work in conjunction with the SCO to develop a process to ensure that all subrecipients that are required to have single audits have them completed and forwarded to SCO and the Fund annually. Management will review the single audits timely and issue management decisions on any findings noted within the timeframe outlined in OMB Circular A-133.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
PRIOR AUDIT FINDINGS
Year Ended June 30, 2006**

There were no prior audit findings required to be reported under generally accepted government auditing standards or OMB A-133 standards.